



Via Electronic Mail

February 27, 2019

Board of Administration
City of San José
Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, CA 95112

Re: 5-Year Budget Projections for the Police and Fire Department OPEB Plan

Dear Members of the Board:

The purpose of this letter is to provide estimated future contributions expected to be required of the City of San José to the City of San José Police and Fire Department Postemployment Health Care Plan (OPEB Plan) for the next five years. We provided projections for the pension plan on January 30, 2019. This letter shows the projection amounts for both if the contributions are made throughout the year and if the contribution amounts are made at the beginning of the year. Unlike the pension contributions, the City contributions for the OPEB Plan are strictly payments toward the Unfunded Actuarial Liability (UAL). Consequently, there is no separate breakout of normal cost.

The table on the following page summarizes the estimated OPEB payroll and Actuarially Determined Contribution (ADC) amounts. The estimated full benefit payroll is for the closed group of members entitled to full OPEB benefits. The total payroll also includes members only eligible for catastrophic disability benefits. The estimated optional City cap is 11% of total payroll. The beginning of year ADC amount is discounted for half a year of interest at 55 percent of the discount rate, in accordance with Board policy. This reduction in the discount rate is applied throughout the five-year projection. The projections are shown for the Police and Fire members separately as well as combined.

5-Year OPEB Budget Projections						
FYE	Payroll		Estimated City Cap	Actuarially Determined Contribution		
	Full Benefit	Total		Throughout Year	Beginning of Year	
Police						
2020	\$	85,887	\$ 136,175	\$ 14,979	\$ 14,595	\$ 14,341
2021		78,890	140,600	15,466	15,432	15,163
2022		71,485	145,170	15,969	16,410	16,124
2023		63,146	149,888	16,488	17,172	16,873
2024		55,930	154,759	17,024	17,896	17,584
Fire						
2020	\$	68,461	\$ 89,354	\$ 9,829	\$ 9,408	\$ 9,244
2021		65,974	92,258	10,148	10,003	9,829
2022		62,619	95,256	10,478	10,632	10,447
2023		58,611	98,352	10,819	11,077	10,884
2024		54,720	101,548	11,170	11,515	11,315
Total						
2020	\$	154,349	\$ 225,528	\$ 24,808	\$ 24,003	\$ 23,585
2021		144,864	232,858	25,614	25,435	24,992
2022		134,104	240,427	26,447	27,041	26,571
2023		121,757	248,240	27,306	28,249	27,758
2024		110,650	256,307	28,194	29,411	28,899

Dollar Amounts in Thousands

Please note that these projections are based on the June 30, 2018 actuarial valuation, and assume that all assumptions are exactly met since June 30, 2018, and are exactly met each and every year into the future. In reality, experience will deviate from the assumptions with the expectation that overall favorable deviations will be offset by unfavorable deviations over time. Finally, except as noted above, we have not adjusted the projections for any events, transactions or experience, including investment experience, after June 30, 2018. If the Board or the City is aware of any significant event since June 30, 2018 that could alter these projections, please let us know. Please refer to the valuation reports for a description of the plan provisions, a summary of the data, a summary of the methods and assumptions used in the valuation, and additional disclosures that also apply to the projections reported in this letter.

We hereby certify that, to the best of our knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the Board of Administration and the City of San José for the purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

If you have any questions or need any additional information, please let us know.

Sincerely,
Cheiron



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Consulting Actuary



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Principal Consulting Actuary

cc: Roberto Peña
Donna Busse
Jacqui King